



PHILIP MORRIS COMPANIES INC.

LEGAL DEPARTMENT
FIVE YEAR PLAN

1992-1996

CONFIDENTIAL

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MAJOR OBJECTIVES

- # 1: Maintain a Vigorous Defense of Product Liability Actions
- # 2: Ensure the Adequacy of Compliance Programs on a Company-wide Basis
- # 3: Determine and Institute the Optimal Organizational Structure for the Legal Department
- # 4: Continue Efforts to Reduce the Legal Department's Operating Cost
- # 5: Continue to Develop An Aggressive Approach to Providing Legal Services
- # 6: Implement Technology Designed to Increase Departmental Efficiency

Legal Department Five Year Plan (1992-1996)

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Objective # 1
Maintain a Vigorous Defense of
Tobacco Product Liability Actions

BACKGROUND

- 50 tobacco product liability cases against industry; 22 against PM USA.
- Trials possible irrespective of Supreme Court *Cipollone* decision.
- Increasing international activity.
- Will remain key priority for Department.

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(Objective # 1, Cont.)

1991 HIGHLIGHTS

- *Cipollone* briefing and argument.
- Favorable decisions in several US cases; participated in key cases overseas.
- Enhanced coordination in handling smoking and health issues.
- Coordinated with Miller legal department regarding alcohol product liability actions.
- Participated in state and federal tort and litigation reform efforts.

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(Objective # 1, cont.)

PROJECTS

- (1) Implement post-*Cipollone* contingency plan as appropriate.
- (2) Vigorous defense of product liability actions here and abroad.
- (3) Continue tort and litigation reform efforts.
- (4) Upgrade the automated litigation support systems.
- (5) Increase efficiencies in outside counsel utilization.
- (6) Enhance coordination in handling smoking and health issues.

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Objective # 2
Ensure the Adequacy of Compliance
Programs on a Company-wide Basis

BACKGROUND

- Steady trend toward increased regulation.
- 60,000 environmental regulations in US.
- 300,000 criminally enforceable regulations in US.
- Compliance increasingly important over Plan Period.

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(Objective #2, cont.)

1991 HIGHLIGHTS

- Began review of compliance programs in light of new standards.
- Summarized major compliance requirements under US law.
- Increased compliance efforts overseas.

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(Objective #2, cont.)

PROJECTS

- (1) Brief senior management on compliance programs.
- (2) Develop coordinated compliance programs in six key areas:
 - ◆ Antitrust
 - ◆ Environmental
 - ◆ Food and Drug
 - ◆ Government Affairs
 - ◆ Government Contracts
 - ◆ Workplace Safety
- (3) Enhance compliance programs in additional areas (*e.g.*, copyright, Foreign Corrupt Practices, labor/employment, and securities.)
- (4) Develop policies and procedures related to compliance auditing.
- (5) Explore new ways to conduct compliance training seminars and to disseminate compliance materials.
- (6) Develop a policy on compliance by foreign operations.

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Objective # 3
**Determine and Institute the Optimal Organizational
Structure for the Legal Department**

BACKGROUND

- The Legal Department consists of 133 lawyers in 25 locations.
- The Legal Department is decentralized.
- In several countries lawyers report to local management.
- A more unified structure would promote consistency in decision-making.
- Centralization of administrative matters, such as budgeting and staffing would promote efficiencies.

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(Objective #3, cont.)

1991 HIGHLIGHTS

- Analyzed Department's overseas structure.
- Established direct reporting relationships from Philip Morris International Regional Counsel to Philip Morris International General Counsel.
- Established unified management of Philip Morris EEC and EEMA legal affairs.
- Circulated draft of Legal Department personnel policies.

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(Objective #3, cont.)

PROJECTS

- (1) Develop and implement plan to restructure the Legal Department.
- (2) Establish formal practice groups.
- (3) Consider opportunities for TQM.
- (4) Distribute personnel policy statements.
- (5) Implement hiring procedures.
- (6) Explore opportunities for increased hiring of minorities and increased involvement in programs related to minorities in the profession.
- (7) Examine compensation issues across operating companies.

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Phase 1 (1/1992)

All Philip Morris International Regional Counsel to Report Directly to Philip Morris International General Counsel

Phase 2 (6/1992)

Philip Morris GmbH and Philip Morris Holland Country Counsel to Report Directly to Philip Morris EEC Regional Counsel.

Phase 3 (9/1992)

Overseas KGF Lawyers to Report Directly (or through regions) to Kraft General Foods International Chief Counsel.

Phase 4 (12/1992)

All Philip Morris International Lawyers to Report Directly (or through regions) to Philip Morris International General Counsel

Phase 5 (1993)

All First-Tier Operating Companies to Report Directly to Philip Morris Companies Inc. General Counsel

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Objective # 4
Continue Efforts to Reduce the
Legal Department's Operating Cost

BACKGROUND

- Legal Department is committed to cost-effective operations.
- Legal fees account for slightly under 70% of the Legal Department's budget.
- Legal fees allocated for smoking and health matters account for the largest segment of our outside counsel budget.

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(Objective #4, cont.)

1991 HIGHLIGHTS

- Reduced 1992 Original Budget to \$59,170,000, which is \$4.2 million less than the Department's 1991 Original Budget.
- Commissioned a study to identify opportunity to reduce outside counsel expenses.
- Reduced the percentage of the Department's budget which is accounted for by legal fees.

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(Objective #4, cont.)

PROJECTS

- (1) Seminar on outside counsel management.
- (2) Consider consolidation of legal work in a limited number of preferred firms.
- (3) Expand the use of alternatives to hourly billing.
- (4) Consider bringing work in-house.
- (5) Prevent duplication of effort.
- (6) Apply technology to reduce operating costs.
- (7) Use alternative dispute resolution (ADR) as appropriate.

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Objective # 5
Continue to Develop An Aggressive
Approach to Providing Legal Services

BACKGROUND

- The Legal Department is committed to using its resources aggressively to provide the maximum protection.
- Various "proactive" measures are critical to the Legal Department's operations.

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(Objective # 5, cont.)

1991 HIGHLIGHTS

- Used Task Forces to promote synergies in major practice areas, including the following:
 - ◆ Compliance Programs
 - ◆ Document Retention
 - ◆ International Practice
 - ◆ Labor/Employment
 - ◆ Legislation/Regulation
 - ◆ Outside Counsel Management
 - ◆ Synergy/Separateness
 - ◆ Trademark
- Held the Legal Department's second worldwide conference.
- Conducted an initial analysis of "benchmarking" and similar techniques.
- Participated in TQM training.

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(Objective #5, cont.)

PROJECTS

- (1) Respond to trends in the law.
- (2) Use measures such as the promulgation of marketing codes, the standardization of major agreements, and greater coordination among the operating companies' legal departments.
- (3) Respond to changes in current and prospective markets.
- (4) Develop a corporate governance plan.
- (5) Develop a comprehensive legislative strategy.
- (6) Work more closely with Corporate Audit.
- (7) Identify and respond to client expectations.
- (8) Participate in legal advocacy groups.

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Objective # 6
Implement Technology Designed to
Increase Departmental Efficiency

BACKGROUND

- The Legal Department has dramatically expanded its use of technology over the last few years.
- We will continue using technology to automate such functions as Departmental administration and sharing information among the Company's lawyers.

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(Objective # 6, cont.)

1991 HIGHLIGHTS

- Installed Macintosh networks at 120 Park and in Rye Brook.
- Coordinated with Miller legal department in its installation of a Macintosh network.
- Improved tracking of outside counsel utilization.
- Frequently used video-conferencing facilities.
- Created a Company-wide trademark database.
- Formed a technology steering committee.

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(Objective #6, cont.)

PROJECTS

- (1) Link Legal Department networks.
- (2) Complete the MCI mail link, which will enable communications with outside counsel
- (3) Improve document transfer capabilities.
- (4) Develop databases in critical areas:
 - ◆ Contracts
 - ◆ Corporate Secretary
 - ◆ Fee Tracking
 - ◆ Legal Research
 - ◆ Matter Tracking
 - ◆ Outside Counsel Management
- (5) Implement technology to store the key images.

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